

Brazil stands out in the world employment scenario

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Brazil took the opportunity of its best economic growth to reduce employment rate

The unemployment rate is a significant welfare indicator within a society. In economic terms, the existence of workers capable of contributing to the generation of value in the economy, willing to work, although unable to find jobs, represents a blatant waste of productive resources. Moreover, access

to employment opportunities may be seen as an element for an individual's integration into society, and, thus, a means of exercising citizenship.

Over the last years "and until September 2008", Brazil witnessed a rather sound macroeconomic environment. Concomitantly with stable prices, the GDP and investment growth both increased. This positive performance was mirrored by the labor market behavior, with a marked reduction in the unemployment rate.

Graph 1 compares the evolution of the unemployment rate in Brazil's large urban centers¹ in 2003, a year in which this rate was at its highest, to that of

¹ Data from the Employment Monthly Survey of the Brazilian Institute of Geography and Statistics (Pesquisa Mensal de Emprego/ Instituto Brasileiro de Geografia e Estatística - PME/IBGE). PME covers the cities of Recife, Salvador, Belo Horizonte, Rio de Janeiro, São Paulo and Porto Alegre, and their outskirts. Despite being restricted to the large cities, this group's advantage is that it has monthly data available, which enables a follow-up on the status of the Brazilian labor market in a rather updated way. Due to a change in the survey methodology, 2002 was the first year that the new group was released.

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recent years. As seen, it is possible to note a significant change in the unemployment level. While 2003's average unemployment rate reached 12.3%, 2007's rate dropped to 9.3%, reducing even more in 2008, hitting 7.9%. Thus, between 2003 and 2008, there was a significant drop of 4.4 percentage points in the unemployment rate.

Hence, figures show an astonishing evolution in the Brazilian labor market. Nevertheless, two aspects ought to be pointed out. Firstly, the period of higher economy growth for Brazil was also a highly dynamic period for the world economy. Thus, dimensioning how successful the Brazilian labor market truly was requires a comparison to the performance of labor markets in other countries.

Secondly, since late 2007 the world economy has been on decline due to the financial crisis brought about by the US subprime market (mortgages). This crisis only hit the Brazilian labor market in the second half of 2008. Graph 1 shows there was stagnation in the unemployment rate between August and November 2008, against the downward trend recorded in the same months in previous years.

Within this perspective, this report aims at comparing the evolution of the Brazilian unemployment rate to that of other countries, in such a way as to present a performance evaluation of the Brazilian labor market during the 2003-

2008 period. A second report will address the perspectives on the future evolution of the Brazilian unemployment rate within a scenario of lower world economic growth.

The evolution of unemployment around the world

Information on international unemployment was collected on the database of the International Labor Organization (ILO). The target was to compare the evolution of unemployment in Brazil to the experience of other economies, classified within four large groups. On one hand, the main

developed economies, and, on the other, the emerging countries. The

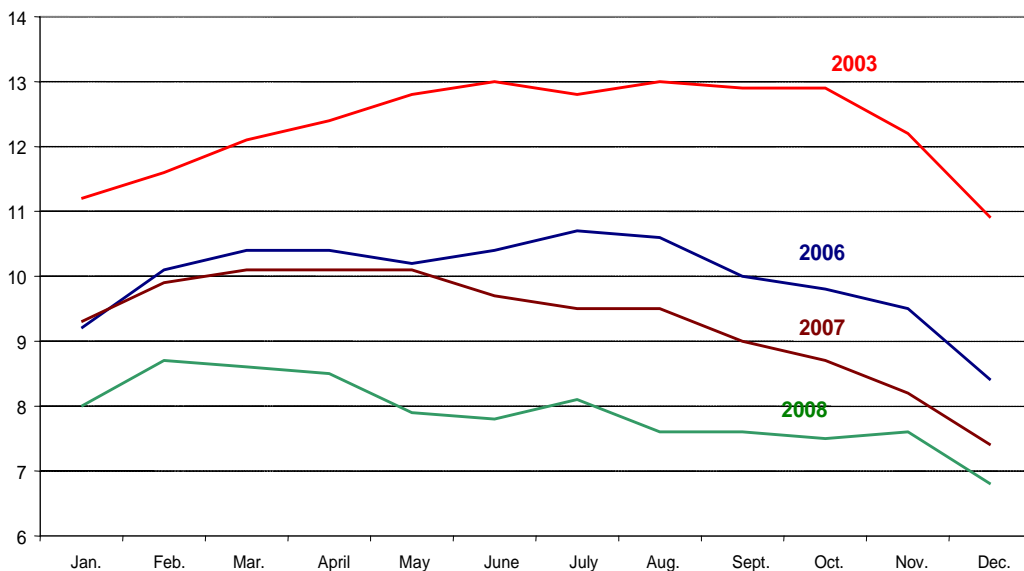
Between 2003 and 2008 there was a drop of 4.4 percentage points in the unemployment rates

latter was subdivided into three groups: Russia and the main economies of Eastern Europe; Latin American countries, including Brazil; and the other emerging countries. For all the cases, the 2003-2008 period was the focus, a time when the Brazilian unemployment rate underwent a significant reduction.

Before going any further, two reservations regarding data availability should be made. Firstly, our research focused on countries with updated data for the 2004-2008 period and which was organized according to the ILO statistical basis. However, it discarded countries whose methodology for unemployment surveys changed during the considered period.

Graph 1

Brazil: Unemployment rates (%)
Chosen years (month to month)



Source: PME/IBGE

A second aspect lies specifically in the very definition of the unemployment rate. Overall, workers are considered to be unemployed when they do not currently have a job, when they are available to work and have adopted active measures to find a job during a certain period before the survey (four weeks for most of the chosen countries).

Despite this, it is noteworthy to

emphasize that the methodology, as well as the realm for unemployment rate surveys, takes into account certain distinctions for different countries. Some outstanding examples are the following: the high unemployment rate in Colombia, compared to the other Latin American countries, which tends to be impacted by potentially embodying a share of workers no longer seeking employment²; and the low unemployment rate in Japan, compared to the other developed countries, which also tends to be influenced by the fact that the unemployment statistics

² The Colombian unemployment rate includes people who sought employment during the last 12 months, but gave up during the last month for a "good reason".

Table 1

Unemployment Rates (%): Chosen Countries					
Countries	2003	2007	Differential 03-07	2008*	Differential 07-08
i) Developed Countries - Large Economies					
Australia	6.0	4.4	1.6	-	-
Canada	7.6	6.0	1.6	6.2	-0.1
Spain	11.3	8.3	3.0	10.4	-2.2
United States	6.0	4.6	1.4	5.5	-0.9
France	8.9	8.0	0.9	7.2	0.7
Italy	8.5	6.1	2.4	6.6	-0.6
Japan	5.3	3.8	1.4	4.0	-0.2
United Kingdom	5.0	5.4	-0.3	5.5	-0.2
iii) Eastern European Economies					
Hungary	5.9	7.4	-1.5	7.8	-0.4
Poland	19.7	9.6	10.1	7.3	2.3
Czech Republic	7.8	5.3	2.5	4.4	0.9
Russia	8.3	6.1	2.3	6.3	-0.2
iv) Latin American Countries					
Brazil	12.3	9.3	3.0	8.1	1.2
Chile	8.5	7.1	1.4	7.9	-0.8
Colombia	14.2	11.2	3.0	11.7	-0.5
Mexico	2.4	3.7	-1.3	3.9	-0.2
v) Other Emerging Countries					
South Africa	28.0	23.0	5.0	-	-
China	4.3	4.0	0.3	-	-
South Korea	3.6	3.3	0.4	3.2	0.1
Turkey	10.5	9.9	0.6	-	-
Average among countries	9.4	7.5	1.9	6.6	-0.1
(*) Data up to 3Q2008 - except for Colombia and Russia, with available data only up to 2Q					

Source: the IBGE/PME and ILO

disregard workers engaged in seasonal activities. Thus, the main object of the comparison will be the variation of unemployment rates during the significant time span, rather than a comparison between the different rates.

Table 1 illustrates the main outcomes regarding the international comparison of the evolution of unemployment rates. As can be concluded from this table, the period of international prosperity

until 2007 had positive impacts on the performance of the labor market for most of the analyzed countries.

Among emerging countries, except for Hungary and Mexico, all of them underwent an unemployment rate reduction, markedly Poland and South Africa. Unemployment also significantly shrank among developed countries, markedly in Spain and Italy. The United Kingdom stands out as an exception

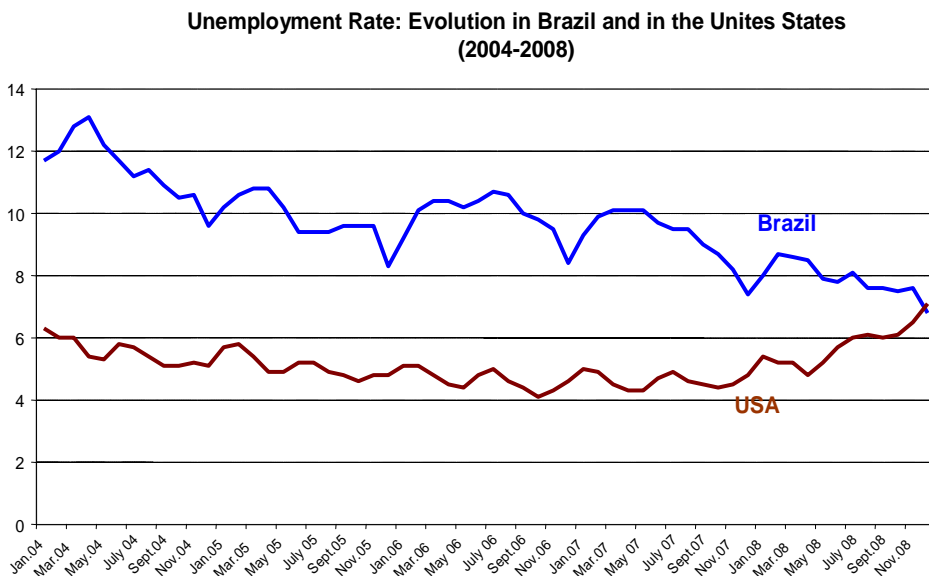
among the developed countries, recording a slight increase in its unemployment rate.

Brazil posted a good performance compared to the other chosen countries: a drop of three percentage points in the unemployment rate between 2003 and 2007 was a percentage point above the average drop seen in the same time span. Only Poland and South Africa registered a more notable drop in the unemployment rate due to the fact that

these countries had a very high unemployment rate in 2003.

When it comes to the recent evolution of the unemployment rate, one pertinent aspect is related to the impact of the ongoing world economic crisis. As can be seen in the last column of Table 1, the variation of the unemployment rate between 2007 and 2008 points towards a reversal in the trend of a falling unemployment rate for large developed economies – except for France. This

Graph 2



Source: PME/IBGE and ILO

phenomenon was also acutely felt in Latin American countries, such as Chile and Colombia.

The case of the USA is representative. Unemployment dropped significantly between 2003 and 2007. However, as of the second half of this year (2008), this scenario underwent a reversal as a result of the ongoing world financial crisis in the real economy.

Few countries underwent the opposite; one exception was Brazil. In fact, the drop in the unemployment rate gains speed when the years 2007 and 2008 are compared. This reduction surpasses all others, except for Poland.

Graph 2 shows the evolution of the unemployment rates in Brazil and in the USA, the epicenter of the current financial crisis, between the years of 2004 and 2008. The Brazilian unemployment rate presents a consistent downward trend throughout the period. The drop in the US unemployment rate, in its turn, reverses its trend midway through 2007, presenting a strong momentum throughout 2008. Consequently, the differential between the unemployment rates of both countries, which surpassed 7 p.p. in early 2004, was virtually eliminated in late 2008.

Final considerations

The cycle of accelerated growth in the world economy, which lasted from the turn of the year 2000 until mid-2007, had positive impacts on the employment level in a number of countries. Brazil stood out in this scenario with a significant reduction in its unemployment rate when compared to the world's reduction average.

What could explain this relative yet good performance for Brazil? Firstly, the Brazilian unemployment rate in 2003 was one of the highest among the chosen countries, and any possible reduction in the unemployment rate tends to be higher vis-à-vis a higher base. Despite

Unemployment rate was not in keeping with the increase of the GDP in some economies

this, Brazil still has an above-average performance when it comes

to the proportional drop in the unemployment rate³.

A relevant second point to be mentioned is that, although the higher economic growth in the period 2003-2007 seems to have a significant role in the unemployment evolution in Brazil, there was dissociation between the evolution of the unemployment rate and the GDP growth in other countries. Some outstanding examples are the following: China, which had extremely high economic growth, but had an only regular reduction in its unemployment rate; and Hungary, which, in spite of a significant real growth rate in GDP (an average of around 4% in this period),

³ The Brazilian unemployment rate had a proportional drop of 6.1% p.a. between 2003 and 2007, while the average proportional drop of the chosen countries was 3.6% p.a. over the same period.


registered an increase in its unemployment rate. Thus, one possible conclusion is that there are other factors over and above the economic growth affecting the evolution of unemployment.

The processes of opening the economy and changing the productive structure are items that may help explain the different unemployment routes seen in the countries. The countries which underwent these processes over the last few years were those that, on average, saw less reduction of unemployment figures. In fact, the process of growing while rationalizing work characterized the opening of the economy in Brazil during the 90s. The exhaustion of this process may be considered one of the factors that allowed the expansion of employment after 2000.

In its turn, the better performance of the Brazilian labor market in comparison to other economies – notably developed ones – in 2008 is owing to the fact that the impacts of the international financial crisis started to take effect in Brazil only after the second half of that year.

Relevant issues to be regarded are the perspectives on the Brazilian unemployment rate as of now. As Brazil was not directly exposed to the financial markets with major losses until now, the country showed a continuous drop in unemployment figures between 2007 and 2008. However, the worsening of the credit shortage and higher setbacks in the world's activity level are already adversely impacting the capacity of the economy to generate employment. The

estimated impact of the crisis on the Brazilian labor market, as well as the discussion on mechanisms capable of lessening this impact, will be addressed in a forthcoming issue of the *Brazilian Economic Insights*.





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